

**Drinking Water State Revolving Fund
State Fiscal Years 2004-2005**

Biennial Report

**State of Washington
Department of Health and
Public Works Board**

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SFY04 AND SFY05 Drinking Water State Revolving Fund Overview

Number of Loans Executed:	86
Project Funding (Executed Loans):	\$61,725,381
Average Interest Rate:	1.04 percent
Average Repayment Period:	21.7 years
Small Systems (Population <10,000) Funded:	77 for \$45,167,441
Loans executed for Disadvantaged Community:	30
Set-Aside Assistance Awarded:	\$12,475,361

I. Introduction

The State of Washington is pleased to submit the Biennial Report on the Drinking Water State Revolving Fund (DWSRF) for state fiscal year (SFY) 2004 and 2005. The report addresses operation of the DWSRF during the time period from July 1, 2003 through June 30, 2005. During that time period, Washington received capitalization grant awards for federal fiscal years (FFY) 2003 and 2004.

The state provides this comprehensive report to the public and to the U. S. Environmental Protection Agency (EPA) regional office to detail the activities undertaken to reach the goals and objectives set forth in the Intended Use Plans (IUPs) developed for SFY 2004 and SFY 2005. The DWSRF National Information Management System (NIMS) report provided a portion of the figures in the report. The report documents the status of the program by describing the progress made toward long- and short-term program goals, the sources (e.g., federal grants) and uses of all funds (e.g., loans), financial status of the DWSRF, and compliance with federal DWSRF requirements.

The Biennial Report is presented in four major sections. Section I of the report provides a summary of progress made toward reaching long- and short-term goals of the program. Section II has details on loan and set-aside activities. Section III provides an overview of financial conditions of the program. Finally, Section IV reports on the state's compliance with provisions of the federal capitalization grants.

II. Goals and Accomplishments

Washington developed program goals early in its program development phase. These goals have remained unchanged since that time. The long-term goals provide a framework that guide management decisions for the DWSRF program, while short-term goals support the implementation of the program's long-term goals.

A. Progress Toward Long-Term Goals

1. *Maintain the economic viability of the DWSRF program to meet current and projected Drinking Water Program and system needs in the state of Washington.* The basic interest rate has been less than the Municipal Bond Buyer's 20-year index on "A" revenue bonds. The rate is set each year as the DWSRF program application period begins. The rates have remained unchanged since the 2002 cycle. The basic terms for applications received during the 2003 and 2004 project funding cycles was a 1.5 percent fixed rate for 20 years. Applicants from low-income (disadvantaged) communities received lower interest rates and, in some instances, qualified for a 30-year loan term. Washington has not chosen to provide "principal forgiveness" or "negative interest rate loans" for disadvantaged communities, as is allowed under federal guidelines, because this could significantly reduce the funds available for future years. Washington is also not shifting funds between the DWSRF and Clean Water State Revolving Fund (CWSRF) programs. All loan repayments and program income, (e.g., interest on loans and earnings on funds in the DWSRF accounts), remain with the DWSRF program and will be used for the purposes of the program.
2. *Provide loans and technical assistance to community and nonprofit, non-community water systems to facilitate effective planning, design, financing, and construction of improvements aimed at increasing public health protection and compliance with primary drinking water regulations.* Washington's DWSRF Program is available to publicly-owned and privately-owned public water systems, subject to the following conditions: systems must be subject to the Safe Drinking Water Act (SDWA) upon project completion; non-community systems must be owned by a legally recognized nonprofit entity; applications must comply with eligibility and loan requirements; and the application must rate sufficiently high on the priority ranking list to receive funding. During the seventh funding cycle, 65 eligible projects made the priority project funding lists for \$44,982,085 of DWSRF loan assistance. There were not sufficient funds in the eighth application cycle to fund all eligible projects, therefore only 37 of the 44 eligible projects made the fundable project list for \$39,380,363. Some projects came off the funding lists due to a variety of reasons. Three systems were bypassed, either because they failed the financial review or they were not ready to proceed with the project (see Appendix B). Other applicants voluntarily withdrew their applications for a variety of reasons, e.g., inability to execute the loan in a timely manner, or lack of willingness to accept the various loan terms. Considerable set-aside funds are used to provide direct technical assistance to systems to assist them in achieving and maintaining compliance. This direct technical assistance is provided by DOH staff and by third-party contractors.

3. *Ensure adequate resources to provide long-term administration of the DWSRF program.* Washington uses the maximum allotment of four percent from each capitalization grant to fund DWSRF loan administration activities. These funds have been split evenly between the Department of Health (DOH) and the Public Works Board (Board), a Division of the Department of Community, Trade and Economic Development. DOH has found its share of these funds to be inadequate to cover current program administration costs. DOH supplements these funds, as necessary, with funds from other nonfederal sources. Washington assessed a one percent loan fee on all loans. These funds are deposited into a sub-account within the DWSRF dedicated account that will accrue investment earnings until needed. Funds from this account have been designated for current and future program administration after the federal capitalization grants cease.

B. Progress Toward Short-term Goals

1. *Provide at least 15 percent of the funds to systems serving 10,000 or fewer persons.* Most of Washington's public water systems serve fewer than 10,000 persons. The state has structured interest rates in such a manner that the relatively few systems serving 10,000 or more persons generally have access to better financing terms than are being offered under the DWSRF program. Therefore, this federally prescribed goal is easy for Washington to attain. Seventy-four (74) systems remaining on the 2003 and 2004 priority project funding lists requesting \$44,817,214 in assistance serve under 10,000 persons. This represents 64% of the total dollars being offered to systems, which is far above the 15 percent minimum.
2. *Provide assistance to communities in strengthening their local capacity.* Washington has required federally regulated systems, (i.e., those subject to the Safe Drinking Water Act) to do comprehensive water system planning for many years. Depending on the size and nature of the system, this involves development of a water system plan or a small water system management program. The 1996 reauthorization of the SDWA recognizes the need to ensure that systems maintain "system capacity" and the DWSRF requires a demonstration of adequate system capacity in order to qualify for assistance. Washington has merged its existing planning requirements with this new system capacity requirement. Systems in this state will be able to meet this new federal requirement by complying with existing state regulations. EPA allows this planning as an eligible expense. A number of systems on the first three funding lists completed the required planning as part of their DWSRF project. For the first three years of the program, this requirement had to be completed within six months of the date of contract execution. For years four through six, applicants were required to have a DOH-approved water system plan or small water system management program by December 31 of the year in which they applied. For years seven and eight, applicants were required to have a DOH-approved water system plan or small water system management program by January 31 of the following year. Those that did not meet this requirement became ineligible for DWSRF assistance.

Washington also provides additional assistance through the uses of third-party contracts. Examples of work plan budgets for this type of assistance include:

- Providing technical assistance to small and large systems to help them achieve and maintain coliform monitoring requirements (\$332,000).
 - Ground water technical/circuit rider to provide technical assistance and support to small water systems and regional source water protection implementation efforts (\$257,749).
 - Assist systems in demonstrating capacity consistent with the State of Washington Water System Capacity Development Strategy and carry them through to obtaining DWSRF loan funds to construct improvements (\$157,000).
1. *Provide additional loan subsidies to systems with customers at or below 80 percent of the county's median household income (mhi).* Washington does not provide principal forgiveness or negative interest loans. This decision is intended to maintain the long term integrity of this funding program. However, systems whose customers were below the 80 percentile mhi have received a one percent loan rate reduction. Systems below the 50 percentile mhi have received an additional one percent loan rate reduction plus they are eligible for loans of up to 30 years duration. During funding cycle 2003, 17 borrowers qualified for 1% reduction because they were at or below 80 percentile mhi, and six borrowers qualified for a 0.5% interest rate reduction because they were from a distressed county. Four borrowers qualified for 0% interest rate because they were at or below 50 percentile mhi. During the 2004 funding cycle, three borrowers qualified for a 0.5% reduction because they were from a distressed county, 10 borrowers qualified for a 1% reduction because they were at or below 80 percentile mhi, and no borrowers qualified for 0% interest. These numbers represent only executed contracts.

C. Accomplishments

Washington provided 52 DWSRF loans to water systems serving 807,852 people in 43 communities during SFY 2005. These loans, with an average annual interest rate of less than 1%, totaled \$41,000,151. Water systems receiving DWSRF loans saved more than \$1.6 million in interest expense over the cost borrowing these funds at the prime interest rate.

III. DWSRF Loan and Set-Aside Activities

This section provides a discussion of the DWSRF assistance activities during SFY 2004 and SFY 2005. It also provides details on the sources of funding in the program, the status of loan activities, and the status of set-aside activities.

Table 1 provides information about the sources of DWSRF funding available for SFY 1998 through SFY 2005. It also shows the binding commitments, work plan commitments and administrative funding commitments made for each year.

Table 1: Sources and Uses DWSRF Funding through June 30, 2005

SOURCES OF FUNDS	1999 - 2003	SFY 2004	SFY 2005	BIENNIUM 2004-2005	CUMULATIVE 1999 - 2005
Capitalization Grant	132,125,224	19,752,600	20,490,500	40,243,100	172,368,324
State Match (transfers from PWA account)	25,482,598	3,950,520	4,098,100	8,048,620	33,531,218
Interest earning used for State Match *	942,447			0	942,447
Total Match	26,425,045	3,950,520	4,098,100	8,048,620	34,473,665
Investment Interest Earnings	3,410,845	442,422	609,471	1,051,893	4,462,738
Used as State Match (years 1-4 only) *	-942,447	0		0	-942,447
Balance of Invest Interest Earnings	2,468,398	442,422	609,471	1,051,893	3,520,291
Interest on Loan	2,547,721	1,460,404	1,642,733	3,103,137	5,650,858
Previous Year's Unobligated or Unidentified Projects	0	30,214,171	33,769,414	30,214,171	0
Principal Repayments	6,051,772	4,337,236	3,534,478	7,871,714	13,923,486
TOTAL SOURCES OF FUNDS	169,618,160	60,157,353	64,144,696	90,532,635	229,936,624
USES OF COMMITTED FUNDS					
DWSRF LOAN ACCOUNT **					
Executed Loans for Systems 10,000 + Population	35,860,789	4,181,000	12,376,939	16,557,939	52,418,728
Executed Loans for Systems < 10,000 Population	77,967,267	16,138,148	28,536,417	44,674,565	122,641,832
Terminations of Undisbursed Principal	-9,710,985	-54,515	0	-54,515	-9,765,500
Unobligated or Unidentified Projects (carry-over)	30,214,171	33,769,414	16,879,285	16,879,285	16,879,285
Subtotal	134,331,241	54,034,047	57,792,641	78,057,274	182,174,344
SET-ASIDE COMMITMENTS					
State Program Management (10%)	13,217,150	1,975,260	2,049,050	4,024,310	17,241,460
Technical Assistance (2%)	2,643,430	395,052	409,810	804,862	3,448,292
Local Assistance (15%)	14,139,479	2,962,890	3,073,575	6,036,465	20,175,944
Loan Administration (4%)	5,286,860	790,104	819,620	1,609,724	6,896,584
Subtotal	35,286,919	6,123,306	6,352,055	12,475,361	47,762,280
TOTAL USES OF COMMITTED FUNDS	169,618,160	60,157,353	64,144,696	90,532,635	229,936,624

* \$942,447 of investment earnings applied toward the 20% project loan state match requirement for the first four capitalization grants. EPA approved using these excess investment earnings as a one time exception.

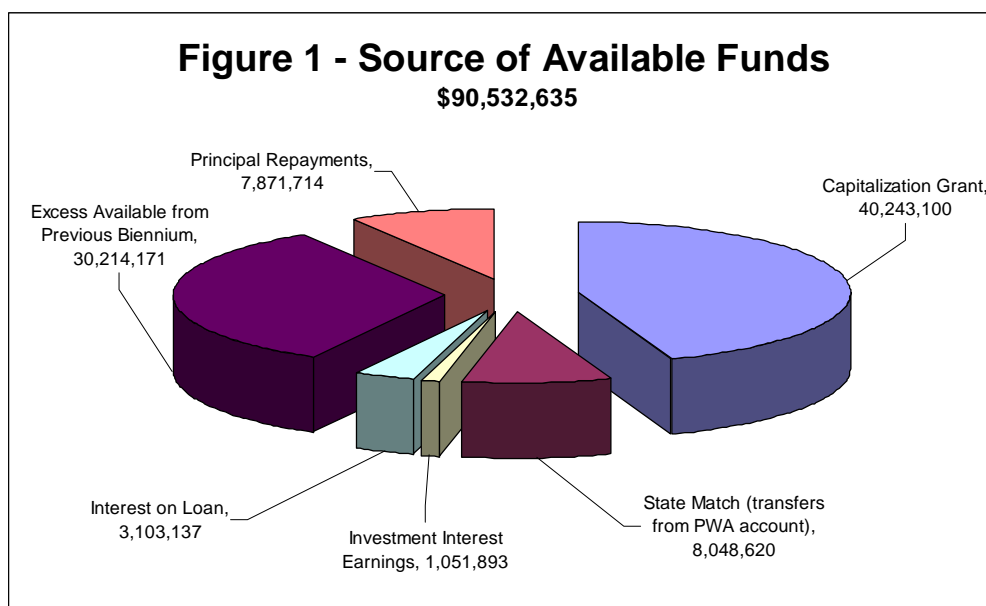
** Amendments to loans are not included in amount of executed loans.

Table 2: Capitalization Grants through June 30, 2005

Cap Grant	Award Date	Amount	Purpose
Year 1	July 1997	\$6,707,639	All set-asides
	May 1998	\$24,438,261	Project loan funds
	August 1998		Shifted funds (\$1,390,295) to local assistance set-aside account, for the purpose of increasing the SWAP account to 10% of the total grant amount)
	April 1999		Shifted funds (\$1,557,295) to local assistance set-aside account, for the purpose of funding workplans that establish/implement wellhead protection programs and implementation of capacity development strategy.
Year 2	August 1998	\$766,764	Program administration set-asides
	April 1999	\$18,402,336	Project loan funds and Technical Assistance, State Program Management, and Local Assistance set-asides
Year 3	August 1999	\$5,485,676	All set-asides
	February 2000	\$14,605,424	Project loan funds
Year 4	September 2000	\$6,472,924	All set-asides
	January 2001	\$14,407,476	Project loan funds
	October 2001	-\$76	Adjusted grant amount
	January 2005		Shifted (\$1,044,020) from the local assistance 15% set-aside to the capital loan portion of the grant.
Year 5	January 2001	\$6,514,030	All set-asides
	February 2002	\$14,498,970	Project Loan Funds
	February 2002	-\$46,200	Recision
	August 2004		Transfer (\$860,342) from the local assistance 15% set-aside to the capital loan portion of the grant.
Year 6	February 2003	\$6,160,320	All set-aside funds
	February 2003	\$13,711,680	Project loan funds
	August 2004		Transfer (\$617,754) from the local assistance 15% set-aside to the capital loan portion of the grant.
Year 7	February 2004	\$6,123,306	All set-aside funds
	February 2004	\$13,629,294	Project loan funds
Year 8	November 2004	\$6,352,055	All set-aside funds
	November 2004	\$14,138,445	Project loan funds
Total		\$172,368,324	

A. Sources of DWSRF Funding

The funding available for the DWSRF program in this reporting period totaled \$90.5 million (See Figure 1). Because of the short time the program has been in operation, federal capitalization grants and state match have been the major sources of funding for project loans. In the future, funds from investment earnings, loan repayments, and loan fees will be significant sources of funding.



➤ State Match

Through June 30, 2005, Washington has deposited \$33,531,218 from the Public Works Assistance Account into the project loan fund and used \$942,447 of investment interest earning to cover anticipated state match requirements.

➤ Investment Earnings in the Fund

Through June 30, 2005, the state has earned \$4,462,738 in interest earnings with the State Treasurer.

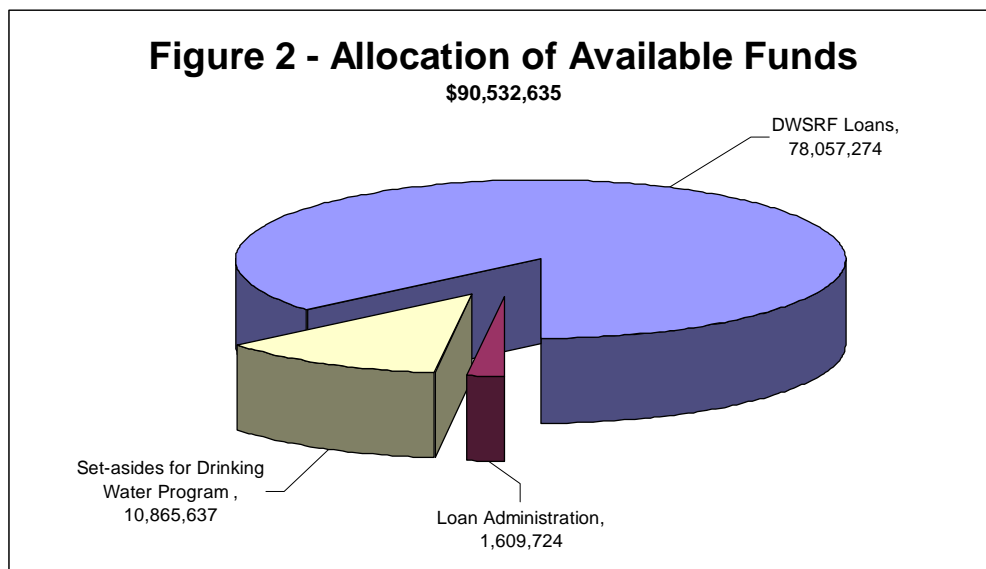
➤ Repayments

Repayments received during SFY 2004 and SFY 2005 totaled \$7,871,714. Repayments are received annually, and will increase over time as more loans are executed and projects constructed

B. Uses of DWSRF Funds

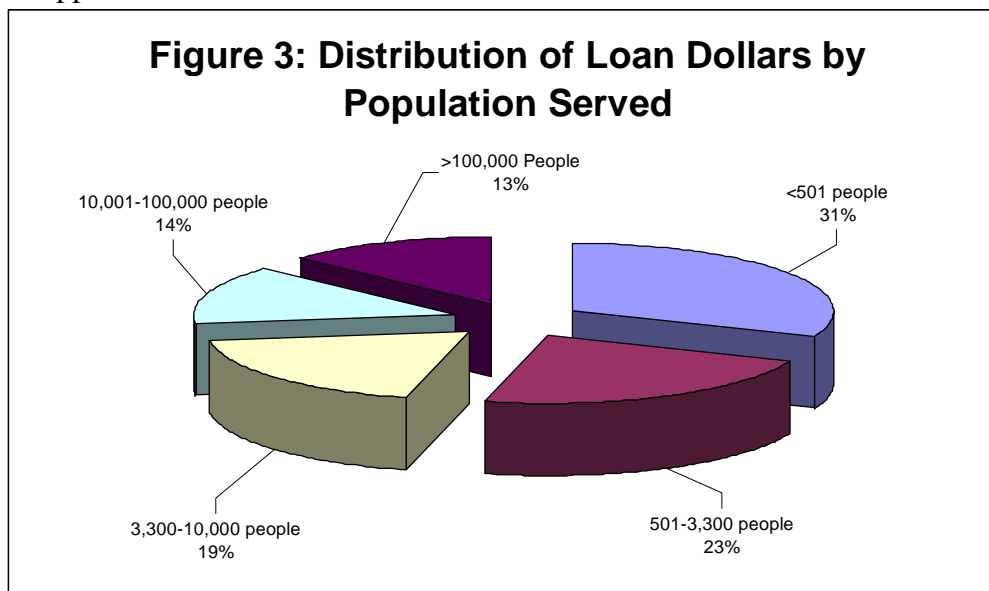
During SFY 2004 and SFY 2005, Washington allocated \$78,057,274 for project loans. Loans of \$16,557,939 were executed with water systems serving more than 10,000 people, \$44,674,565 in loans to systems serving less than 10,000 people and \$16,879,285 was either allotted to projects which had not executed a contract before June 30, 2005 or was de-obligated due to problems arising with execution of the loan or project was completed under the allotted budget. Loan

funding of \$78,057,274 was not sufficient to allot funds to all eligible projects during these two funding cycles (see Appendix B, for list of bypassed projects). The program also committed a total of \$12,475,361 for set-aside activities including: \$1,609,724 for DWSRF program loan administration, \$4,024,310 for management of state drinking water programs, \$6,036,465 for assistance to local drinking water programs and \$804,862 for technical assistance (See Figure 2).



Loan Assistance Status

Through June 30, 2005, the state has executed 257 project loan contracts totaling \$179,704,560 of assistance. The loans range in size from \$15,300 to \$4,080,000 and \$91,429,775 had been paid to loan applicants.



Binding Commitments

➤ Project Funding

The state has had sufficient projects on its priority project funding lists to utilize most of the state and federal project loan funds. The remaining funds, totaling \$19,988,797, will be carried over to fund future projects. Carry over resulted from applicants that did not meet their water system plan requirement or applicants who chose another funding source.

➤ Project Bypass

The state bypassed 3 projects from the last two fundable project lists. Appendix A includes a list of these projects and reason for the bypass.

➤ Small Systems

Most of Washington's public water systems serve fewer than 10,000 persons. The state has structured interest rates in such a manner that the relatively few systems serving 10,000 or more persons generally have access to better financing terms than are being offered under the DWSRF program. Therefore, this federally prescribed goal is easy for Washington to attain. 74 systems remaining on the 2003 and 2004 priority project funding lists requesting \$44,817,214 in assistance serve under 10,000 persons. This represents 64% of the total dollars being offered to systems, which is far above the 15 percent minimum.

➤ Disadvantaged Community Systems

Washington has chosen not to provide “principal forgiveness” or “negative interest rate loans” for disadvantaged communities, as is allowed under federal guidelines, because this could significantly reduce the funds available for future loans. However, the state does provide reduced interest rates and extended loan terms to applicants with systems located in disadvantaged communities and distressed counties. Forty-four loans were awarded in the amount of \$30,996,379 to disadvantaged communities and distressed counties. Four applicants qualified for 30 years loans at a zero percent rate.

➤ Disbursements

Through June 30, 2005, the state had disbursed \$91,429,775 for capital projects.

Set-aside Activity Status

The state has developed and provided annual set-aside performance status reports for DWSRF-funded activities. The following provides an overview of set-aside activities during the last two years. Funds initially specified for use but were not disbursed in SFY 2002 and SFY 2003 are now specified for use in SFY 2004 and SFY 2005. Workplan amendments have been approved by EPA.

➤ Set-aside: Administration (4%)

Funds from this set-aside are used to pay direct and associated indirect expenses of personnel administering the DWSRF loan program. These funds are shared equally between DOH and the Board. These funds are also used to cover agency indirect costs associated with the disbursement of project loans. The state charges a loan initiation fee for all new loans. This fee is one percent the loan on all project loans. This loan fee is placed into a dedicated fund for current or future program administration should the federal capitalization grants cease.

PGM ADMIN 4%	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	TOTAL
Grant Amount	1,245,836	766,764	803,644	835,216	840,520	794,880	790,104	819,620	6,896,584
DOH Disbursed	622,836	383,382	406,836	417,609	273,572	211,157	370,179	89,485	2,775,056
CTED Disbursed	623,000	383,382	396,808	417,607	420,690	397,440	242,768	381,669	3,263,364
Balance	-	-	-	-	146,258	186,283	177,157	348,466	858,164

➤ Set-aside: State Program Management (10%)

The state is using all available funds from its state program management set-aside for SFY 2004 and SFY 2005, based on EPA-approved workplans that cover multiple years. Activities include funding for a significant portion of the DOH Division of Drinking Water's staff plus a number of third-party contracts, primarily associated with development of a new data system.

PGM MGMT 10%	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	TOTAL
Grant Amount	3,114,590	1,916,910	2,009,110	2,088,040	2,101,300	1,987,200	1,975,260	2,049,050	17,241,460
Disbursed	3,114,590	1,916,910	2,009,110	2,088,040	2,101,300	1,987,200	793,437	0	14,010,587
Balance	-	-	-	-	-	-	1,181,823	2,049,050	3,230,873

➤ Set-aside: Local Assistance and Other State Programs (15%)

The state used funds from the local assistance set-aside for source water delineation and assessment and for wellhead protection and system capacity development activities for SFY 2004 and SFY 2005, based on EPA-approved workplans that cover multiple years.

LOCAL ASST 15%	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	TOTAL
Grant Amount	4,671,885	500,000	2,271,100	2,088,040	2,245,408	2,363,046	2,962,890	3,073,575	20,175,944
Disbursed	4,671,885	500,000	2,271,100	2,088,040	2,245,408	2,142,548	0	0	13,918,981
Balance	-	-	-	-	-	220,498	2,962,890	3,073,575	6,256,963

➤ Set-aside: Small Systems Technical Assistance (2%)

The state used these funds to provide technical assistance to systems under 10,000 population for SFY 2004 and SFY 2005, based on EPA-approved workplans that cover multiple years.

TECH ASST 2%	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	TOTAL
Grant Amount	622,918	383,382	401,822	417,608	420,260	397,440	395,052	409,810	3,448,292
Disbursed	622,918	383,382	401,822	417,608	420,260	193,465	0	0	2,439,455
Balance	-	-	-	-	-	203,975	395,052	409,810	1,008,837

State Programs That May Impact Future DWSRF Allocations

The SDWA requires states to develop and implement programs related to ensuring public water systems have adequate system capacity and adequate certification of system operators. Failure to comply with these federal requirements by specified deadlines would result in withholding and potentially losing 20 percent of future DWSRF capitalization grants. The state has complied with these requirements and achieved compliance.

➤ System Capacity Program

The SDWA contains capacity development provisions requiring states to develop and implement a strategy to assist public water systems in acquiring and maintaining technical, managerial and financial capacity. Failure to develop and implement the strategy by specified deadlines would have resulted in EPA withholding and the state potentially losing portions of its DWSRF capitalization grant. Specifically each state must:

- 1) Demonstrate it has the legal authority or other means to ensure new community and non-transient non-community federally regulated water systems commencing operation after October 1999 demonstrate technical managerial and financial capacity with respect to each national primary drinking water regulation in effect or likely to be in effect on the date of commencement of operation, and
- 2) Develop and implement a strategy to assist all federally regulated public water systems in acquiring and maintaining technical, managerial and financial capacity.

Since the amendment of the SDWA, the state has further developed and refined its authorities to ensure compliance with the new federal requirements. The State Board of Health amended Chapter 246-290 Washington Administrative Code (the state regulations governing public water systems subject to the requirements of the federal SDWA) in December 1998 expanding the scope of its system planning requirements.

The state submitted documentation to EPA demonstrating its authority to ensure all new systems have capacity. The report was reviewed and approved in the winter of 1999. EPA has approved the state's overall system capacity strategy.

Set-aside funds have been used to fund a variety of activities aimed at promoting improved system capacity of the federally regulated public water systems in the state. Also, the project loan funds are being used by public water systems to provide infrastructure needed to achieve and maintain compliance with applicable statutes and regulations.

➤ Operator Certification Program

The state has conducted an operator certification program since 1979. To comply with the new SDWA requirements, the state has significantly expanded the program to certify the operators of all Group A community systems and non-transient non-community (NTNC) systems (regardless of whether they provide treatment), and transient non-community (TNC) systems that are considered, by state definition, to be in significant noncompliance. The state is using set-aside funds to help implement these changes.

The state has adopted its Water Works Operator Certification Regulations (Chapter 246-292 Washington Administrative Code), policies and procedures, and EPA has approved the program. DOH submits an annual report to EPA documenting that the program continues to operate in compliance with EPA's program guidelines.

IV. Financial Summary

The following discussion provides additional details on the financial management activities in the state's DWSRF program.

A. Status of Loans

As of June 30, 2005, 105 projects have been completed and one loan has been closed out or paid off. Appendix A shows the status of all DWSRF loans to date.

B. Loan Disbursements/Cash Draw Proportionality.

The state has disbursed \$91,429,775 for loans since the program's inception.

PROJECT LOAN FUND – Cap Grant	Year 1 Cap Grant	Year 2 Cap Grant	Year 3 Cap Grant	Year 4 Cap Grant	Year 5 Cap Grant	Year 6 Cap Grant	Year 7 Cap Grant	Year 8 Cap Grant
Available								
Federal Funds	21,490,671	15,602,044	14,605,424	15,451,420	15,359,312	14,329,434	13,629,294	14,138,445
State Match	6,229,180	3,833,820	4,018,220	4,176,080	4,193,360	3,974,400	3,950,520	4,098,100
Total Available	27,719,851	19,435,864	18,623,644	19,627,500	19,552,672	18,303,834	17,579,814	18,236,545
Percentage of Federal Funds Available	77.5	80.3	78.4	78.7	78.6	78.3	77.5	77.5
Disbursements								
Federal	21,490,671	15,602,044	14,605,424	15,451,420	4,108,690	0	0	0
State	6,229,180	3,833,820	4,018,220	4,176,080	1,914,226	0	0	0
Total	27,719,851	19,435,864	18,623,644	19,627,500	6,022,916	0	0	0
Balance	0	0	0	0	13,529,756	18,303,834	17,579,814	18,236,545
Proportionality								
Percentage of Federal Funds Disbursed	77.5	80.3	78.4	78.7	68.2			
Proportional	Yes	Yes	Yes	Yes	Yes	NA	NA	NA

EPA requires that federal dollars be disbursed proportionally with state dollars (i.e., state match disbursements must be *at least* proportional to federal dollar disbursements, but may be higher). The state is tracking proportionality on a grant-by-grant basis.

Per EPA guidelines, the state will verify proportionality for each capitalization grant every 18 months. Since the state has adopted a strategy of obligating state funds more quickly than federal funds, it is highly unlikely that the state would fail to comply with proportionality requirements. However, if state expenditures should fall below the required levels, adjustments would be made at that time.

C. Set-aside Disbursements

The state has disbursed \$36,407,443 in set-aside funds since the program's inception.

D. Annual Repayment/Aging of Accounts

Through June 30 2005, the DWSRF program has collected \$17,627,186 in repayments, of which \$11,976,328 was principal and \$5,650,858 was interest.

E. Loan Portfolio Analysis

The state does not leverage DWSRF grants.

F. Investments

The DWSRF program had earned \$1,051,893 from investments of state match in the project loan fund within SFY 2004 and SFY 2005. The DWSRF program has received \$66,437 of interest earnings on the loan fees during SFY 2004 and SFY 2005. The office of the State Treasurer manages these funds in compliance with state investment practices. All investment earnings remain within these accounts. Management reports that document these investment earnings are on file with the office of the State Treasurer.

G. Financial Statements

Financial statements are provided as Appendix B.

V. Compliance with Operating Agreement and Grant Conditions

The state has not entered into an operating agreement with EPA for the DWSRF program. The state has complied with the following program requirements:

- ☐ Establish state instrumentality and authority
- ☐ Comply with applicable state laws and procedures
- ☐ Review technical, financial, and managerial capacity (i.e., system capacity) of assistance recipients
- ☐ Establish DWSRF loan account, set-aside accounts, and loan fee account
- ☐ Deposit all funds into appropriate accounts
- ☐ Follow state accounting and auditing procedures
- ☐ Require DWSRF loan recipient accounting and auditing procedures
- ☐ Submit intended use plans and use all funds in accordance with these plans
- ☐ Comply with enforceable requirements of the Act
- ☐ Establish capacity development authority
- ☐ Implement/maintain system to minimize risk of waste, fraud, abuse, and corrective action
- ☐ Develop and submit project priority ranking system

The state has met the following conditions, as described more fully below:

- ☐ Payments based on payment schedule

The state has received payments based on monthly expenditures made for SFY 2004 and SFY 2005

- ☐ Deposit state matching funds

The state legislature appropriated the 2003-2005 biennium \$8,387,000 of Public Works Trust Funds to cover anticipated state match requirements.

- ☐ Submit Biennial Report and Audit

The submission of this document will fulfill the state's responsibility to submit an annual report. DWSRF is included as part of the state audit cycle performed under the Single Audit Act.

- ☐ Assure that borrowers have dedicated source of repayment

Board staff conducts a credit review evaluation for all applicants. This evaluation determines whether or not an applicant has the ability to repay a loan. For all public water systems, the expected revenue stream from user fees must be sufficient to repay the loan, pay operation and maintenance costs, and pay for other necessary expenses.

- ☐ Use funds in timely and expeditious manner

As of June 30, 2005, the state had obligated 76% of all available funds. The state notes that this program has taken far more time and resources than originally anticipated in getting this program up and running. Additional technical assistance and streamlining the loan processing has increased interest from the previous biennium.

- ☐ Ensure recipient compliance with applicable federal cross-cutting authorities

The state and all of its assistance recipients have complied with all applicable federal cross-cutting authorities to the best of their ability. Recognizing that this is a new program at both the

state and federal levels, there has been a significant learning curve as the program has evolved. The state has conscientiously tried to follow all requirements and provided oversight and direction to clients to help ensure their compliance as well. Whenever the state has discovered a compliance issue, either because of a change in federal policy or due to lack of clear understanding of the federal requirements by the state, the state has taken action to correct the problem.

The state and EPA have agreed to use the state statute as the basis for establishing fair share objectives for Minority and Women's Business Enterprises (MBE/WBE). The state has established the following fair share goals:

Construction	10% MBE	6% WBE
Purchased Goods	8% MBE	4% WBE
Purchased Services	10% MBE	4% WBE
Professional Services	10% MBE	4% WBE

For the period July 1, 2003 to June 30, 2005, the actual MBE/WBE figures are:

Project Loan Fund	PWB	Set-Aside Fund
Women-Owned Businesses	0.13%	3.02%
Small Businesses in Rural Areas	16.13%	0%
Minority-Owned Businesses	2.8 %	0%

❑ Conduct environmental reviews

The Board has assumed responsibility for determining that the environmental review is complete for each funded project. One hundred and sixty three (163) projects from the first six loan cycles have completed their environmental reviews. The remainders of the projects either declined the loan offers or are in the process of completing their reviews. The state determined that no projects required environmental impact statements. Nine projects had environmental assessments prepared and a finding of no significant impact was issued. One in the first loan cycle, one in the fourth loan cycle, two in the sixth loan cycle, three in the seventh cycle and two in the eighth cycle.

❑ Implement operator certification program

The state has adopted its Water Works Operator Certification Regulations (Chapter 246-292 Washington Administrative Code), policies and procedures, and EPA has approved the program. DOH submits an annual report to EPA documenting that the state program continues to be operated in compliance with EPA's program guidelines. See section on "State Programs That May Impact Future DWSRF Activities" on page 13 for further information.

❑ Implement capacity development strategy

The state's capacity development strategy for existing water systems was approved by EPA on September 5, 2000. See section on "State Programs That May Impact Future DWSRF Activities" on page 13 for further information.

Appendix A

Loan Status

Client Name	Loan Date	Loan Amount	Loan Status	Execution Date
Aberdeen	12/28/1998	\$1,030,000.00	Terminated	12/28/1998
Aberdeen	8/3/1999	\$1,030,000.00	Closed	8/3/1999
Alderbrook Estates	9/20/1999	\$150,266.70	Complete	9/20/1999
Aldergrove Water Association	7/1/2004	\$300,980.00	Open	7/1/2004
Aquarius Utilities LLC	6/8/1999	\$119,665.00	Complete	6/8/1999
Aquarius Utilities LLC	7/26/1999	\$285,722.00	Complete	7/26/1999
Aquarius Utilities LLC	1/4/2005	\$276,221.00	Open	1/4/2005
Aquarius Utilities LLC	1/4/2005	\$678,892.00	Open	1/4/2005
Aquarius Utilities LLC	1/4/2005	\$240,321.00	Open	1/4/2005
Arlington	7/22/1999	\$905,885.00	Complete	7/22/1999
Asotin County PUD 1	6/11/2001	\$459,000.00	Complete	6/11/2001
Bayview Beach Water District	11/30/2004	\$505,000.00	Open	11/30/2004
Benton City	12/21/1999	\$177,084.00	Complete	12/21/1999
Beverly Beach Homeowners Association	6/27/2003	\$196,944.00	Open	6/27/2003
Blue Lake Summer Homes Water Users Association	7/28/1999	\$379,219.00	Terminated	7/28/1999
Board Of Directors Hydro Irrigation Dist No. 9	5/24/2004	\$378,750.00	Open	5/24/2004
Bon Air Community Club	6/30/2004	\$850,016.00	Open	6/30/2004
Bon Air Community Club	6/30/2004	\$283,630.00	Open	6/30/2004
Bonney Lake	6/23/1999	\$284,512.00	Complete	6/23/1999
Bonney Lake	6/23/1999	\$715,488.00	Complete	6/23/1999
Bremerton	10/26/1998	\$1,030,000.00	Open	10/26/1998
Bremerton	6/11/2001	\$3,008,490.00	Open	6/11/2001
Bremerton	12/9/2002	\$1,020,000.00	Open	12/9/2002
Bremerton	12/9/2002	\$1,055,700.00	Open	12/9/2002
Bremerton	6/23/2003	\$510,000.00	Open	6/23/2003
Bremerton	6/23/2003	\$127,500.00	Open	6/23/2003
Bremerton	6/23/2003	\$1,058,760.00	Open	6/23/2003
Bremerton	6/23/2004	\$101,000.00	Open	6/23/2004
Bremerton	7/28/2004	\$505,000.00	Open	7/28/2004
Candy Cane Park Association	9/29/2004	\$318,150.00	Open	9/29/2004
Capehorn Maintenance Company	6/20/2004	\$1,825,564.16	Open	6/20/2004
Carbonado	5/2/2005	\$309,514.50	Open	5/2/2005
Castle Rock	5/22/2000	\$631,942.00	Open	5/22/2000
Cathlamet	6/18/2001	\$428,400.00	Terminated	6/18/2001
Centralia	2/10/1999	\$1,030,000.00	Complete	2/10/1999
Centralia	5/19/2003	\$624,240.00	Open	5/19/2003
Centralia	6/27/2005	\$2,449,250.00	Open	6/27/2005
Chehalis	5/22/2000	\$939,797.00	Open	5/22/2000
Chelan	6/15/2000	\$2,040,000.00	Complete	6/15/2000
Chelan River Irrigation District	12/21/1998	\$1,411,100.00	Terminated	12/21/1998
Chinook Water District	9/23/2005	\$1,515,000.00	Open	9/23/2005
Clallam County PUD 1	5/14/2003	\$1,825,290.00	Terminated	5/14/2003
Clallam County PUD 1	5/19/2005	\$3,535,000.00	Open	5/19/2005
Clark Public Utilities	9/20/1999	\$1,030,000.00	Complete	9/20/1999
Clark Public Utilities	5/22/2000	\$816,000.00	Complete	5/22/2000
Clark Public Utilities	8/21/2000	\$1,189,320.00	Complete	8/21/2000
Clark Public Utilities	9/26/2005	\$807,394.00	Open	9/26/2005
Colfax	11/1/1998	\$318,270.00	Complete	11/1/1998
College Place	5/31/2005	\$1,622,200.00	Open	5/31/2005
Colony Surf Club Inc	6/5/2002	\$316,500.00	Open	6/5/2002
Columbia View Water System	10/17/2001	\$150,000.00	Complete	10/17/2001

Client Name	Loan Date	Loan Amount	Loan Status	Execution Date
Connell	2/7/2001	\$1,776,321.00	Complete	2/7/2001
Cosmopolis	11/20/1998	\$213,394.00	Complete	11/20/1998
Coulee Dam	10/3/2001	\$1,632,000.00	Terminated	10/3/2001
Covington Water District	6/16/2003	\$548,250.00	Open	6/16/2003
Covington Water District	6/16/2003	\$2,322,163.00	Open	6/16/2003
Cowlitz County	7/21/2003	\$1,084,158.00	Open	7/21/2003
Crescent Water Association	7/29/2002	\$489,192.00	Complete	7/29/2002
Crescent Water Association	12/4/2003	\$260,610.00	Open	12/4/2003
Crescent Water Association	12/4/2003	\$72,930.00	Open	12/4/2003
Cross Valley Water District	5/12/2003	\$914,175.00	Open	5/12/2003
Darrington	6/28/2002	\$204,000.00	Open	6/28/2002
Deming Water Association	7/23/2003	\$249,900.00	Open	7/23/2003
Dockton Water Association	8/15/2005	\$57,671.00	Open	8/15/2005
Dockton Water Association	8/15/2005	\$485,608.00	Open	8/15/2005
Don M Kitterman Jr	6/30/2005	\$85,825.00	Open	6/30/2005
Double View Community Association	7/14/1999	\$265,060.00	Complete	7/14/1999
Driftwood Shores Water System Inc	10/20/1999	\$836,703.00	Complete	10/20/1999
Eatonville	6/20/2004	\$1,627,818.00	Open	6/20/2004
El Camano Community Club	5/12/2003	\$183,325.00	Open	5/12/2003
Entiat	6/26/2003	\$333,218.00	Complete	6/26/2003
Everett	6/9/2005	\$4,040,000.00	Open	6/9/2005
Evergreen Water And Sewer District #19	9/2/2004	\$3,855,925.00	Open	9/2/2004
Evergreen Water Association	9/4/2001	\$672,153.17	Open	9/4/2001
Faith V Sohl	8/23/2005	\$157,231.75	Open	8/23/2005
Fircrest	4/29/2002	\$1,133,016.00	Complete	4/29/2002
Foothills Water Association	1/10/2002	\$379,060.60	Terminated	1/10/2002
Forest Glen Water Association	3/30/2005	\$135,069.32	Open	3/30/2005
Garfield	5/22/2002	\$400,860.00	Complete	5/22/2002
Garfield	5/22/2002	\$39,729.00	Complete	5/22/2002
Gold Beach Water Co., Inc	5/24/2004	\$61,200.00	Open	5/24/2004
Goldendale	8/2/2004	\$903,357.00	Complete	8/2/2004
Grandview	5/6/2003	\$2,496,246.00	Open	5/6/2003
Grays Harbor County Water District No 1	7/22/1999	\$478,967.00	Complete	7/22/1999
Grays Harbor Water District 2	1/16/2001	\$367,353.00	Terminated	1/16/2001
Happy Valley Estates Management Assoc	6/22/2004	\$237,891.00	Open	6/22/2004
Harbor Hill Community Association	7/2/1999	\$119,946.00	Open	7/2/1999
Harbor Hills Water System, LLC	5/24/1999	\$216,965.34	Complete	5/24/1999
Harbor Hills Water System, LLC	6/21/2004	\$538,548.16	Open	6/21/2004
Harbor Hills Water System, LLC	6/21/2004	\$66,413.56	Open	6/21/2004
Hat Island Community Inc	7/13/2000	\$816,000.00	Complete	7/13/2000
Heights Water	3/10/1999	\$988,800.00	Complete	3/10/1999
Hideaway Water Company Inc	5/21/2001	\$209,977.00	Complete	5/21/2001
Highland Water District	1/28/1999	\$1,023,500.70	Complete	1/28/1999
Highline Water District	7/14/2003	\$188,700.00	Open	7/14/2003
Hilltop Water Owners Association	5/31/2005	\$419,489.00	Open	5/31/2005
Holiday Hideaway Homeowners Association	8/2/1999	\$243,476.55	Complete	8/2/1999
Ilwaco	5/31/2005	\$371,801.00	Open	5/31/2005
Ione	12/16/2004	\$505,000.00	Open	12/16/2004
Irvin Water District 6	8/14/2000	\$1,222,776.00	Complete	8/14/2000
Jefferson County PUD 1	9/19/2001	\$168,300.00	Complete	9/19/2001
Joe Louie Water Association Inc	7/9/2001	\$342,453.00	Complete	7/9/2001
Juniper Beach Water District	10/21/2003	\$336,899.21	Open	10/21/2003
Kala Point Utility Company	7/19/1999	\$212,644.00	Complete	7/19/1999
Kalama	10/3/2000	\$2,040,000.00	Terminated	10/3/2000
Kelso	2/22/1999	\$1,030,000.00	Terminated	2/22/1999
Kelso	7/5/2000	\$2,040,000.00	Complete	7/5/2000

Client Name	Loan Date	Loan Amount	Loan Status	Execution Date
Kelso	4/8/2002	\$1,530,000.00	Complete	4/8/2002
Kennewick	6/17/2003	\$4,080,000.00	Open	6/17/2003
Kennewick	7/15/2004	\$4,040,000.00	Open	7/15/2004
Kennewick Irrigation District	5/30/2000	\$169,497.46	Complete	5/30/2000
King County Water District 119	1/28/1999	\$545,900.00	Open	1/28/1999
King County Water District 119	3/1/2000	\$426,791.00	Open	3/1/2000
King County Water District 119	9/10/2001	\$1,651,380.00	Open	9/10/2001
King County Water District 54	2/16/2001	\$999,100.00	Open	2/16/2001
Kittitas Water District 5	10/10/2001	\$397,754.10	Complete	10/10/2001
Kittitas Water District 5	10/10/2001	\$118,684.14	Terminated	10/10/2001
Lake Chelan Reclamation District	7/9/2004	\$1,243,433.04	Complete	7/9/2004
Lake Cushman Maintenance Company	9/19/2005	\$776,602.00	Open	9/19/2005
Lake Cushman Maintenance Company	9/19/2005	\$1,362,695.00	Open	9/19/2005
Lake Entiat Lodge Associated	6/5/2000	\$2,040,000.00	Complete	6/5/2000
Lake Limerick Country Club	6/28/2004	\$343,941.00	Complete	6/28/2004
Lake Lucinda Community Club	4/10/2005	\$395,915.00	Open	4/10/2005
Lakeridge Water Company Inc	6/20/2005	\$154,153.00	Open	6/20/2005
Lamont	2/9/2004	\$50,500.00	Complete	2/9/2004
Leavenworth	7/31/2003	\$244,800.00	Open	7/31/2003
Leavenworth	7/31/2003	\$1,515,720.00	Open	7/31/2003
Lewis County Water Sewer District #6	6/27/2001	\$428,400.00	Complete	6/27/2001
Little Butte Property Owners Water Association	7/2/1999	\$174,372.32	Complete	7/2/1999
Lost Lake Property Owners Association	5/11/2000	\$1,071,072.00	Complete	5/11/2000
Lyman	6/23/2003	\$840,238.00	Complete	6/23/2003
Lynden	6/7/2001	\$2,998,800.00	Open	6/7/2001
Mabana Shores Association, Inc.	10/13/2003	\$38,974.00	Open	10/13/2003
Mabana Shores Association, Inc.	10/4/2004	\$281,868.00	Open	10/4/2004
Madrona Community Inc	2/10/1999	\$119,995.00	Complete	2/10/1999
Maple Shores Water Association	9/20/2004	\$73,274.49	Open	9/20/2004
Mariners Cove Beach Club Inc	9/23/1999	\$85,376.00	Terminated	9/23/1999
Mariners Cove Beach Club Inc	8/27/2003	\$54,515.00	Terminated	8/27/2003
Marvin Road Water Company	7/1/2004	\$160,691.00	Open	7/1/2004
Marvin Road Water Company	7/1/2004	\$147,965.00	Open	7/1/2004
Marvin Road Water Company	7/1/2004	\$150,268.00	Open	7/1/2004
Marvin Road Water Company	7/1/2004	\$263,105.00	Open	7/1/2004
Marysville	2/16/1999	\$556,663.50	Complete	2/16/1999
Marysville	8/27/2003	\$4,080,000.00	Open	8/27/2003
Mason County PUD 1	6/16/2000	\$1,246,440.00	Complete	6/16/2000
Mason County PUD 1	6/16/2000	\$336,600.00	Complete	6/16/2000
Mason County PUD 1	6/27/2001	\$204,000.00	Complete	6/27/2001
Mason County PUD 1	5/29/2003	\$821,100.00	Open	5/29/2003
Mecca Community Water Association	3/10/1999	\$90,707.00	Terminated	3/10/1999
Metaline	8/12/2002	\$15,300.00	Complete	8/12/2002
Moab Irrigation District 20	9/20/1999	\$486,600.00	Complete	9/20/1999
Monte View Water Company	11/14/2001	\$461,652.00	Open	11/14/2001
Moore, Thomas And Rosemary	10/5/2000	\$280,500.00	Complete	10/5/2000
Moorelands Corporation	8/15/2005	\$280,142.69	Open	8/15/2005
Mt View-Edgewood Water Company	8/23/1999	\$1,005,815.72	Complete	8/23/1999
Mud Bay Water System	10/8/2003	\$931,770.00	Open	10/8/2003
Mukilteo Water District	7/22/2004	\$622,968.00	Open	7/22/2004
New Start Land Owners Association	9/26/2001	\$142,800.00	Open	9/26/2001
Nisqually Pines Community Club	7/26/2001	\$2,232,780.00	Open	7/26/2001
North Central Wa Council Of Campfire	1/28/1999	\$90,004.44	Complete	1/28/1999
Northgate Terrace Community Association	6/20/2002	\$153,000.00	Open	6/20/2002
Northwest Water Association	11/17/2004	\$337,390.00	Open	11/17/2004
Oasis Water Corporation	8/7/2000	\$1,066,740.00	Open	8/7/2000

Client Name	Loan Date	Loan Amount	Loan Status	Execution Date
Obstruction Island Club Inc	6/23/2005	\$171,700.00	Open	6/23/2005
Omak	5/31/2005	\$1,367,540.00	Open	5/31/2005
Orcas Island Golf Estates	7/14/1999	\$58,133.20	Complete	7/14/1999
Orcas Landing Inc	8/7/2000	\$281,538.00	Complete	8/7/2000
Orting	8/1/2001	\$557,502.42	Complete	8/1/2001
Pacific	8/19/2002	\$341,700.00	Open	8/19/2002
Pacific	9/10/2003	\$2,203,200.00	Open	9/10/2003
Pacific County PUD 2	10/26/2004	\$462,091.00	Open	10/26/2004
Paradise Community Club, Inc.	9/25/2002	\$324,605.00	Open	9/25/2002
Pasadena Park Irrigation District No. 17	10/27/1999	\$349,747.00	Complete	10/27/1999
Pasadena Park Irrigation District No. 17	4/19/2004	\$228,874.00	Complete	4/19/2004
Pasadena Park Irrigation District No. 17	11/30/2004	\$379,684.00	Open	11/30/2004
Pe Ell	3/8/2000	\$257,500.00	Open	3/8/2000
Pend Oreille County PUD	6/13/2000	\$189,607.44	Complete	6/13/2000
Pend Oreille County PUD	6/6/2000	\$400,070.00	Complete	6/6/2000
Pend Oreille County PUD	7/21/2003	\$70,551.36	Complete	7/21/2003
Peninsula Light Company (Sma)	6/10/1999	\$117,832.00	Complete	6/10/1999
Pine Forest	7/22/2005	\$490,739.00	Open	7/22/2005
Pine Terrace Water Association	6/23/2005	\$429,031.84	Open	6/23/2005
Pioneer Service Company Inc	9/13/2005	\$446,420.00	Open	9/13/2005
Point Roberts Water District No 4	7/22/2002	\$204,000.00	Open	7/22/2002
Point Roberts Water District No 4	7/22/2002	\$188,700.00	Terminated	7/22/2002
Pole Road Water Association Inc	3/21/2005	\$1,762,450.00	Open	3/21/2005
Pomeroy	7/15/2004	\$182,042.40	Open	7/15/2004
Pomeroy	7/15/2004	\$1,369,479.20	Open	7/15/2004
Ponderosa Community Club, Inc.	7/25/2003	\$395,556.00	Open	7/25/2003
Port Angeles	8/23/1999	\$463,500.00	Complete	8/23/1999
Port Angeles	6/15/1999	\$1,030,000.00	Complete	6/15/1999
Port Of Shelton	9/20/2004	\$136,181.84	Open	9/20/2004
Port Of Shelton	9/20/2004	\$851,874.80	Open	9/20/2004
Poseidon Water Company Inc	8/14/2001	\$240,391.00	Terminated	8/14/2001
Prairie Pines Holdings Inc	5/25/2001	\$199,935.30	Complete	5/25/2001
Prosser	7/1/2002	\$867,000.00	Open	7/1/2002
Rainier	10/21/1999	\$196,730.00	Complete	10/21/1999
Rathbone Park Water Association	10/21/2003	\$40,290.00	Open	10/21/2003
Richland	6/23/2003	\$1,632,000.00	Open	6/23/2003
Richland	6/23/2003	\$1,428,000.00	Open	6/23/2003
Richland	8/10/2004	\$580,000.00	Open	8/10/2004
Ridgeview Estates Community Association	8/23/1999	\$105,869.00	Complete	8/23/1999
Roche Harbor Water Company	12/2/1999	\$498,340.00	Terminated	12/2/1999
Roche Harbor Water Company	7/28/2003	\$1,137,300.00	Complete	7/28/2003
Rochester Water Association	5/25/2005	\$507,020.00	Open	5/25/2005
Rosario Utilities, LLC	11/4/2004	\$216,544.00	Open	11/4/2004
Rosario Utilities, LLC	11/4/2004	\$182,002.00	Open	11/4/2004
Roy	5/30/2000	\$253,183.00	Complete	5/30/2000
Roy	8/22/2001	\$345,576.00	Complete	8/22/2001
Royal City	4/22/2002	\$607,920.00	Open	4/22/2002
Sandy Hook Yacht Club Estates	5/15/2002	\$320,514.00	Complete	5/15/2002
Sandy Hook Yacht Club Estates	6/12/2002	\$211,007.00	Complete	6/12/2002
Sandy Hook Yacht Club Estates	5/15/2002	\$188,808.00	Complete	5/15/2002
Sandy Hook Yacht Club Estates	4/19/2004	\$475,796.25	Open	4/19/2004
Saratoga Beach Owners Association	8/29/2005	\$1,595,508.00	Open	8/29/2005
Saratoga Beach Owners Association	8/29/2005	\$297,365.00	Open	8/29/2005
Scott Lake Maintenance Corp	6/27/2001	\$204,000.00	Complete	6/27/2001
Seattle	7/18/2005	\$4,040,000.00	Open	7/18/2005
Skagit County PUD 1	6/11/2001	\$1,803,360.00	Open	6/11/2001

Client Name	Loan Date	Loan Amount	Loan Status	Execution Date
Skagit County PUD 1	7/15/2002	\$77,520.00	Open	7/15/2002
Skagit County PUD 1	12/3/2001	\$139,730.00	Open	12/3/2001
Skagit County PUD 1	12/3/2001	\$704,070.00	Complete	12/3/2001
Skagit County PUD 1	7/15/2002	\$1,758,480.00	Open	7/15/2002
Skookum Chuck Water Association	6/21/2000	\$426,360.00	Complete	6/21/2000
Snohomish County PUD 1	5/15/2002	\$130,585.50	Complete	5/15/2002
Snohomish County PUD 1	5/15/2002	\$372,886.50	Complete	5/15/2002
Snohomish County PUD 1	5/15/2002	\$660,960.00	Complete	5/15/2002
Snoqualmie	10/29/2001	\$612,000.00	Open	10/29/2001
Snowblaze Condominium Owner's Association	8/25/2000	\$232,560.00	Complete	8/25/2000
South Bend	10/1/1998	\$1,030,000.00	Complete	10/1/1998
Stanwood	11/18/1998	\$265,458.00	Terminated	11/18/1998
Stemilt Irrigation District	3/5/1999	\$245,557.00	Complete	3/5/1999
Stevens County PUD 1	6/17/2002	\$39,423.00	Open	6/17/2002
Stevens County PUD 1	6/17/2002	\$54,223.20	Complete	6/17/2002
Stevens County PUD 1	6/17/2002	\$188,241.00	Complete	6/17/2002
Stevens County PUD 1	6/17/2002	\$1,974,720.00	Open	6/17/2002
Stevens County PUD 1	6/17/2002	\$377,022.00	Complete	6/17/2002
Stevens County PUD 1	6/17/2002	\$177,658.00	Complete	6/17/2002
Sultan	3/15/1999	\$1,030,000.00	Complete	3/15/1999
Sunny Acres LLC	11/14/2001	\$33,313.56	Terminated	11/14/2001
Sunnyside	9/2/2005	\$4,040,000.00	Open	9/2/2005
Tacoma	9/7/2001	\$3,060,000.00	Open	9/7/2001
Tahuya River Valley Water District	10/1/1999	\$107,223.00	Complete	10/1/1999
Tenino	6/19/2000	\$199,410.00	Complete	6/19/2000
Teronda West Country Club Association	11/8/1999	\$165,038.00	Complete	11/8/1999
Three Lakes Water Association	8/27/2003	\$365,002.00	Open	8/27/2003
Tieton	11/5/1998	\$358,749.00	Complete	11/5/1998
Timberlake Community Club	7/11/2001	\$334,560.00	Open	7/11/2001
Toppenish	7/15/2004	\$796,587.00	Open	7/15/2004
Toppenish	7/15/2004	\$120,695.00	Open	7/15/2004
Trails End Water District	3/6/2001	\$268,580.28	Complete	3/6/2001
Trails End Water District	6/8/2005	\$391,216.43	Open	6/8/2005
Tukes Mnt Homeowners Assoc Inc	10/5/2000	\$153,000.00	Terminated	10/5/2000
Uniontown	7/19/2004	\$247,794.49	Open	7/19/2004
Vader	7/18/2001	\$1,015,049.00	Open	7/18/2001
Valley Water District	5/29/2003	\$275,400.00	Open	5/29/2003
Valley Water District	7/29/2004	\$294,920.00	Complete	7/29/2004
Vera Irrigation District 15	7/19/2004	\$656,500.00	Open	7/19/2004
Vic Marshall	4/17/2001	\$316,987.55	Complete	4/17/2001
Wahkiakum County Public Utility District No.1	9/12/2005	\$101,000.00	Open	9/12/2005
Waitsburg	4/23/2003	\$530,400.00	Open	4/23/2003
Walla Walla	10/12/1998	\$1,030,000.00	Complete	10/12/1998
Walla Walla County Housing Authority	12/21/1999	\$398,157.00	Complete	12/21/1999
Warden	9/23/2002	\$126,929.00	Complete	9/23/2002
Washington Water Services Company	7/26/1999	\$388,626.00	Open	7/26/1999
Webster Water Company	12/18/2002	\$74,984.00	Open	12/18/2002
Whatcom County PUD 1	8/22/2005	\$1,010,000.00	Open	8/22/2005
Whatcom County Water District 10	6/28/1999	\$543,086.00	Complete	6/28/1999
Whidbey Shores Association	6/21/2004	\$219,478.06	Open	6/21/2004
White Salmon	5/2/2000	\$4,080,000.00	Complete	5/2/2000
Wilderness Village Community Association	5/7/1999	\$631,982.00	Terminated	5/7/1999
Yakima	5/12/2005	\$966,772.00	Open	5/12/2005
Yelm	10/8/2003	\$164,934.00	Open	10/8/2003

Appendix B

Unfunded Projects for the 2003-2005 Biennium Bypass Recommendations for 2003 and 2004 Loan Lists

Client Name	Loan Status	Actions Taken
2003 Loan List:		
Pine Terrace Water Association	Bypass	Letter sent encouraging application in future loan cycle.
Pine Terrace Water Association	Bypass	Letter sent encouraging application in future loan cycle.
Gamble Bay Water Inc.	Bypass	Letter sent encouraging application in future loan cycle.

Appendix C

Washington State Department of Health SRF Annual Report for State Fiscal Biennium Ending June 30, 2005 Balance Sheet with Comparative Totals

	2005	2004
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	45,656,792	41,738,062
Receivables:		
Other Receivables	94	
Due from other funds	130,648	92,886
Due from federal government	7,068,054	3,461,502
Total receivables	7,198,796	3,554,388
Current maturities of SRF loans		
Other Receivables	978,241	808,071
Due from other governments	3,114,494	2,601,880
Total current maturities of SRF loans	4,092,735	3,409,950
Total current assets	56,948,323	48,702,399
SRF loans receivable, net of current	0	0
Other Receivables	18,718,929	14,152,858
Due from other governments	55,470,466	43,092,190
Total SRF loans receivable, net of current	74,189,395	57,245,048
Total assets	131,137,718	105,947,448
<u>Liabilities and Fund Equities</u>		
Current liabilities:		
Accounts payable and accrued expenses	167,762	214,360
Obligations under security lending agreement	6,061,129	6,210,807
Due to other funds	61,411	135,040
Due to other agencies	6,364,097	1,288,582
Deferred Revenue	59,818,354	45,477,903
Total current liabilities	72,472,753	53,326,692
Fund Equity:		
Restricted fund balance	17,449,606	14,323,850
Unrestricted Fund balance	41,215,359	38,296,906
Total fund equity	58,664,965	52,620,756
Total liabilities and fund equity	131,137,718	105,947,448

The accompanying notes are an integral part of the financial statements.

**Washington State Department of Health
SRF Annual Report
for State Fiscal Biennium Ending June 30, 2005
Statement of Revenues and Expenditures and Changes in Fund Balance**

	2005	2004
Operating Revenues:		
Interest income on SRF loans	1,624,986	1,477,949
Loan Fees	392,294	368,784
Total operating revenue	2,017,280	1,846,733
Operating Expenditures:		
Salaries and benefits	1,951,969	1,914,667
Supplies	571,354	564,246
Travel	54,449	53,285
Indirect costs	746,706	717,670
Contracts	2,451,878	2,640,107
Equipment	187,473	54,157
Total operating expenditures	5,963,830	5,944,133
Operating income (loss)	(3,946,550)	(4,097,400)
Non-operating Revenue (Expenditures)		
Interest on investments	658,085	471,542
Funds received from EPA	22,420,752	15,991,241
Funds received for state match	0	8,387,000
Repayment of Loan Principal	3,535,741	4,357,749
Disbursement of Loan Principal	(16,623,819)	(10,206,213)
Operating Transfers to/from Other Funds	0	0
Total non-operating revenue	9,990,759	19,001,319
Excess revenues over expenditures	6,044,209	14,903,919
Fund balance, beginning of year	52,620,756	37,716,837
Fund balance, end of year	58,664,965	52,620,756

The accompanying notes are an integral part of the financial statements.

State of Washington
Drinking Water State Revolving Fund Program
Notes to Financial Statements
as of June 30, 2005

1. Organization of the Fund

The Washington State Safe Drinking Water Account was established in 1997 pursuant to the Washington State Safe Drinking Water Act (RCW 70.119A) and the Federal Safe Drinking Water Act (SDWA). The Washington State Drinking Water State Revolving Fund (DWSRF) was established to provide assistance to public water systems for projects that meet the eligibility requirements of the SDWA. The SDWA allows the State to “set aside” up to 31% of the annual capitalization grants for administration of the DWSRF (up to 4%), for supplemental funding for the State’s Public Water System Supervision program (up to 10%), for technical assistance to small public water systems (up to 2%), and for other technical or financial assistance to public water systems (up to 15%).

The Department of Health’s (DOH) Office of Drinking Water and the Public Works Board (Board) along with its administrative agent, the Department of Community, Trade and Economic Development (CTED), jointly manage the DWSRF. DOH reviews loan applications for eligibility, prioritizes eligible projects, and determines the level of set-aside funding needed to meet its obligations. The Board reviews each loan applicant to determine its ability to repay the loan, its readiness to proceed with the project, its ability to complete the project, and the environmental impacts of the project. A list of prioritized loan applications is forwarded to the Public Works Board for approval. Funding is offered to the highest-ranking projects that are ready to proceed until all funds are used.

Beginning in 1997, the DWSRF received annual capitalization grants from the U.S. Environmental Protection Agency (EPA). States are required to provide an additional 20 percent of the Federal capitalization grant as matching funds in order to receive a grant. As of June 30, 2005, EPA had awarded a total of \$172,368,324 in capitalization grants to the State of Washington, and Washington had provided \$33,736,000 in addition to \$942,477 of investment interest earnings as previously approved by the EPA. The total of these two sources provides \$34,678,447 as the state’s matching share.

2. Summary of Significant Accounting Policies

Basis of Accounting

The DWSRF financial statements are presented as a special revenue fund as required by Generally Accepted Accounting Principles. The State of Washington follows the Governmental Accounting Standards Board (GASB) accounting pronouncements.

Cash and Cash Equivalents

All monies of the Fund are deposited with the Washington State Treasurer's Office and are considered cash or cash equivalents. According to Washington State law, the State Treasurer is responsible for managing cash balances and investing excess cash of the Fund, as further discussed in Note 3. Management of the DWSRF does not have control over the investment of excess cash. Deposits with the Washington State Treasurer are accounted for on the balance sheet as cash or cash equivalents.

Loans Receivable

Washington State operates the DWSRF as a direct loan program. Loans made to water systems are funded by the federal capitalization grant and/or match from State funds. Additional loans can be made from revolving funds that have been repaid to the Fund and fund earnings. The DWSRF loans are evidenced by a formal loan agreement between the Board and the borrower, executed by CTED and a promissory note executed with CTED. Loan funds are disbursed to borrowers after they expend funds for the purposes of the loan and request reimbursement from the Fund.

Interest rates range from zero to 5.0 percent and are calculated from the date that funds are advanced. After the final loan disbursement has been made, the loan and agreement amounts are adjusted for the actual amounts disbursed. No provision for uncollectible accounts has been made as all loans are current, and management believes that all loans will be repaid according to the loan terms.

Administration Fees

The DWSRF charges a loan origination fee of 1% of the principle amount on all loans. Proceeds from these administration fees are deposited in Fund 05R and are available to fund the administration of the DWSRF and other eligible activities. The DWSRF collected \$392,294 in administration fees in Fiscal Year 2005.

Deferred Revenues

The DWSRF uses deferred revenue to offset SRF loans receivable originating from federal funds, net of current maturity, and all SRF loans Receivable originating from state funds. At such time as loans originated from state funds mature or loans originating from federal funds become current loans receivable, deferred revenue is reduced and non-operating revenue is recorded in the Statement of Revenues, Expenditures and Changes in Fund Balance.

Fund Balance

Fund balances represent the amount available for funding future operations. The reserved fund balances represent the amount that has been restricted to a specific purpose or that is not available for appropriation or expenditure. The DWSRF uses

reserved fund balance for loans receivable that originated from state funds and does not represent available expendable resources.’

3. Cash and cash equivalents

All monies of the Fund are deposited with the Washington State Treasurer and are considered cash and cash equivalents. The Treasurer is responsible for maintaining the cash balance of these funds in accordance with Washington laws. The Funds earned \$658,085 in interest earnings for cash on deposit with the Treasurer during Fiscal Year 2005.

Cash of \$39,595,663 was on deposit and available for the State Treasurer to invest as of June 30, 2005. Investments with the Treasurer are not categorized as they are not evidenced by securities that exist in physical or book entry form. Due to the use of repurchase agreements for these investments, \$6,061,129 representing these funds’ share of the state’s total repurchase agreements is displayed on the balance sheet as Obligation Under Security Lending Agreement. An offsetting and equal amount has been added to cash so that the amount of cash and cash equivalent shown on the balance sheet is \$45,656,792.

4. Loans Receivable

The DWSRF makes loans for projects to qualified public water systems that meet the eligibility requirements of the SDWA. Loans receivable as of June 30, 2005 are as follows:

Executed Loans	2004 Balance	Disbursements	Repayments	2005 Balance
\$162,177,671	\$60,644,198	\$ 20,001,167	\$3,732,781	\$76,912,584

Fiscal Year 2005 loan disbursements were comprised of \$16,623,819 in federally reimbursable funds and \$3,377,348 from state match.

5. Fund Balance

The DWSRF is funded by EPA grants authorized by SDWA and by matching funds from Washington State. As of June 30, 2005, EPA had awarded capitalization grants of \$172,368,324 and the state of Washington had provided matching funds of \$34,678,447.

6. Contingencies

The DWSRF is exposed to various risks of loss related to torts; thefts of, damage to or destruction of assets; errors or omissions; injuries to state employees while performing Fund business; or acts of God. Washington State is self-insured against certain property and liability claims. There have not been any claims against the DWSRF since its inception.

Appendix D

Annual Reports on Credit Conditions of Borrowers

To date, 471 payments have been made, and all were received on time. There are no outstanding payments.

Public Works Board staff conduct the following portfolio management activities:

- Statements are sent to each DWSRF borrower one month before payment due date
- Payments have a one-month grace period
- Staff calls borrowers two weeks after the payment due date to check on status of payment
- A 12% penalty on the payment is assessed if the payment is more than 30 days late

Loan defaults are prevented through the following strategies:

High-risk borrowers are screened out through the loan underwriting process. The applicant's character, management ability, financial strength, projected debt service coverage, authority to incur debt, and collateral are examined in order to determine creditworthiness. If staff anticipate that the applicant will have substantial problems repaying the loan, they recommend to the Board that the application be bypassed for the current loan cycle.

If a borrower has difficulty repaying the loan, staff will work with the borrower to find a solution, such as imposing monthly or quarterly payments instead of a large annual payment, or implementing a "lock box" system of collecting revenues. Other solutions might involve re-negotiating loan terms, including extending the loan to 30 years, reducing interest rates, debt deferral, and in cases of extreme hardship, loan principal forgiveness for imminent default. If these methods fail, the ownership of the system can be transferred to a satellite management agency, water district, public utility district, or another local government entity.